



Australian Industry Report

Recreational Boating Update

May 2008

Australia

Prepared by:

Phil Keeling, Senior Commercial Specialist
U.S. Commercial Service, Sydney
Level 59 MLC Centre
19-29 Martin Place NSW 2000 Australia
Tel: 61-2-9373 9209; Fax: 61-2-9221 0573
Email: phil.keeling@mail.doc.gov
Website: www.buyUSA.gov/australia

Figures quoted are in U.S. dollars

SUMMARY

In recent years, the number of registered boats in Australia has increased strongly, and exceeded 750,000 by the end of 2007. New brands have regularly appeared on the local market. Australian boat-builders have developed a strong export trade. Imports of U.S. pleasure boats and yachts have increased dramatically since the quiet times of the nineties. In 2002, Australia was the ninth largest market for U.S. exports in this category. In 2007, it was second.

In 2003, the U.S. imported \$10.5 million more of pleasure boats from Australia than it exported. By 2007, this trade flow had reversed substantially, and the U.S. recorded a trade surplus of \$75.3 million.

A Free Trade Agreement between the U.S. and Australia that removed a five per cent tariff on January 1, 2005, added to the proliferation of American brands on the Australian pleasure boating market.

Australian imports of U.S.-made outboard motors have performed steadily through 2005-07, averaging \$50-55 million per year, and imports of U.S. inboard motors have averaged \$15 million for the same period. A wide range of accessories, including anchors, sails, fish finders, radar, radios, seats, utilities, antifouling chemicals, rod-holders, storage systems, navigation and deck lights, electronics, pumps, refrigerators, radios, paints, and hardware and a host of items for sailing boating have enjoyed strong sales, according to conversations with wholesalers.

A third of the way into 2008, however, there is evidence of a slowdown in the market. Recent economic influences, some engineered, such as increases in interest rates, and some resulting from global factors, are reducing the level of disposable income available to a wide cross-sector of the population. A consequence is shrinkage in luxury, or 'lifestyle' purchases, including pleasure boats. There are still opportunities, however, for both craft and aftermarket items. The effects of the slowdown are not uniform, and there is cause for optimism across much of the market.

MARKET OVERVIEW

The Australian population lives along the continent's coastline, primarily along the eastern seaboard. In fact, close to 85% live within 30 miles of the coast.

Since 2000, Australians have enjoyed the benefits of a robust domestic economy, and a steady, strong international demand for its resources and produce, resulting in a historic level of affluence. Add together the desire for a water-related lifestyle and the higher levels of income, and the result is the surge in sales of recreational boats and equipment. Trade shows have consistently reported record sales.

Currently there are 762,000 registered boats in Australia. Ninety per cent are powerboats and ten per cent are sailboats. Additionally, there are at least an estimated 110,000 boats not requiring registration. All states in Australia require most recreational boats to be registered. Each state has slightly different definitions and exemptions but, as a general guide, if a boat is engine powered or is over 16 feet in length and capable of 10 knots or more, it will most likely require registration. Only the Northern Territory does not require vessel registrations, or that operators hold a license to drive a pleasure craft.

Based on the number of registrations Queensland became the premier recreational boating state in Australia at the end of 2007.

The growth of registrations has also been strong in Western Australia, particularly in the coastal area south of Perth, adjacent to the Margaret River wine country. Western Australia has benefited most from the booming resources demand, with above average per-capita incomes.

At the end of 2007, boating registrations in Australia were:

Queensland	220,000
New South Wales	213,000
Victoria	165,000
Western Australia	84,000
Tasmania	25,000
South Australia	55,000
Total	762,000

Market statistics (Millions US\$)

HS Code 8903 - yachts and other vessels for pleasure or sports

	2006	2007	2008 (ESTIMATED)
Total Market Size	960	980	935
Total Local Production	770	795	710
Exports	170	255	175
Imports	360	440	400
Imports from the U.S.	135	150	130

Trade Stats USA, World Trade Atlas, and unofficial estimates

Boat building has been one of the fastest growing industries in Australia, with builders earning an international reputation for design and production of high-quality fiberglass cruisers, yachts, and light commercial boats. The industry also designs and produces world-class component parts and accessories for these types of boats. In recent years, Australian boat builders exported successfully to the U.S., Singapore, New Zealand, Italy, the UK, and Spain.

Under the current market conditions, however, especially with the high cost of the Australian dollar, local boat builders are experiencing a contraction in exports, and tougher competition domestically, as foreign-made products enter Australia at relatively lower cost.

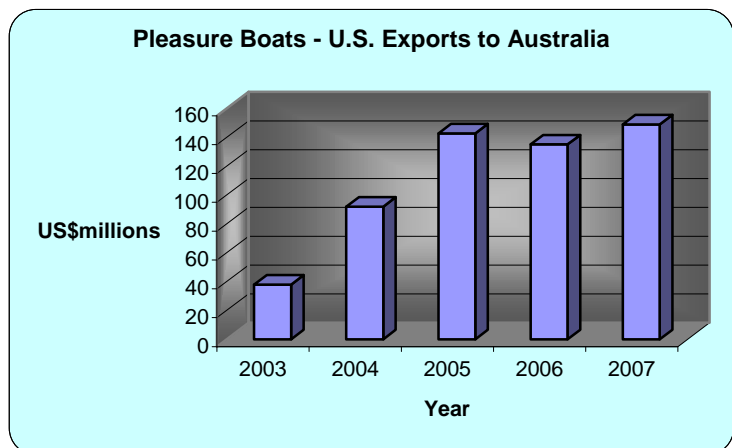
MARKET TRENDS

The years 2003 - 2008

The increase in U.S. exports of recreational boats (HS 8903) to Australia over the five years 2003-07 was spectacular. For the decade prior to this period, from 1993-2002, the Australian boating industry experienced sluggish growth. In 2003-04 the situation changed dramatically – arguably because of three factors:

- The resources boom in the Australian economy, which led to an increase in disposable income, particularly among middle earners
- The Australian dollar's increasing strength against the greenback, and
- The Free Trade Agreement between the U.S. and Australia that came into effect on January 1, 2005, removing tariffs on U.S. products.

In 2002, Australia imported \$20 million worth of recreational boats from the U.S., and was the ninth largest export market for U.S. recreational boats. In 2007, the figure rose to just under \$150 million, and Australia climbed to second largest, behind Canada. Australia's proportion of total U.S. exports to the world in this HS Code increased from 3 per cent to 6.5 per cent.



Australian boat registrations increased sharply during the same period, rising from around 600,000 at the beginning of the decade to over 770,000 in the first quarter of 2008. Although this does not represent total boat ownership, because of the number of boats outside the criteria for registration, it is an indicator of the rising popularity of owning a recreational craft.

The Recent Situation

Much of the buoyancy of recent years changed worldwide in the early part of 2008, and although buffered by a robust economy, Australia has not been immune to the changing conditions.

Significant changes have been:

- a sharp rise in fuel costs
- reduced availability of credit
- a downturn in the stock market
- food price increases, and
- a steady rise in Australian interest rates.

The result of these factors has been a reduction in disposable income. As a recreational activity, boating is particularly sensitive to the effects of a tighter economy. There is some talk in the Australian boating industry community (and some evidence) that conditions are beginning to bite, mainly in the middle range of the market. For example, a tradeshow in Brisbane in the last week of April that focused on lower price range boats (the 'Tinnie & Tackle Show'), reported great success (a 'tinnie' is a small boat made from pressed aluminum sheet). In the same week, there were reports of shrinkage in the mid-range of the market, exemplified by amateur fisher folk and family groups taking shorter trips to save fuel. Local boat builder Riviera laid off 136 workers during April following a reduction in forward orders from Europe, the U.S., and local customers. This latest staff lay-off took the total labor force reduction in recent weeks to 200, out of a workforce of 1150. According to reports, economic conditions have hit the market, including Riviera, in the \$330,000 - \$475,000 price bracket for cruisers. A number of local importers have told us that they are expecting reduced orders, harder-to-obtain credit for buyers and lower profit margins during the period 2008-09

According to market sources, however, the upper and lower price range sub-sectors are likely to continue performing well. Celebrities, entrepreneurs and media identities often consider owning a large cruiser an extension of real estate. Tighter economic conditions minimally affect sales in this range of the market.

At the lower end of the scale, boating will remain a relatively inexpensive diversion, particularly where owners can transport boats on trailers, and where storage, fuel and maintenance costs are much less.

The Sanctuary Cove Boat Show (see *Trade Shows*), May 22-25, 2008, will take place in the center of Australia's boating market, Queensland's Gold Coast. Organizers anticipate a successful event, but expect lower orders for exhibitors than in 2007, particularly in the middle range of the market, as outlined above.

END USERS

Australians use boats for fishing, cruising, light commercial work, sailing, and water sports. Privately-owned boats, charter operators, marinas, and dealerships proliferate close to the population centers.

Pleasure cruising is a popular sport and recreation activity, and there are boats and activities designed for every age group. Water-born holidays feature prominently among Australians' choice of vacation. Users moor and launch boats from marinas and ramps along a multitude of coastal and inland waterways. The Marina Industries Association of Australia lists a membership of 128 marinas around Australia's coast, where boaties can keep, service, refuel or moor their craft for a stopover. People who do not own their own boat can hire for the purposes of cruising, rowing or sailing, with or without charter and crew, and choose to travel at the speed of the wind or at full throttle in a speedboat. There is a concentration of offshore cruise and boat charter operations on the northern coast of Queensland, along the inshore edge of the Great Barrier Reef. Small boat hire is concentrated in the south east of the state near Brisbane, the capital. The houseboat sales and hire industry in Australia is particularly intensive in the Hawkesbury River area near Sydney, in the extensive lake and river system in Victoria's Gippsland area, and on the River Murray in South Australia.

Sports Fishing is one of Australia's biggest industries. According to the Australian Recreational and Sports Fishing Industry Confederation (<http://www.recfish.com.au>), about three and a half million people fish for sport and recreation each year, generating expenditure of \$2 billion per annum. Most

of Australia's recreational fishing occurs along the coast and estuaries of the East Coast – New South Wales, Queensland and Victoria. Freshwater recreational fishing in inland areas plays an important role in regional economies. Powerboats comprise about 80% of the fishing market.

Trailer Boats - Australia is a large market for trailer boats – boats with outboard motors owners can winch from the water and store on dry land. Pleasure cruising or fishing are the main uses for this type of boat.

Australia's imports of U.S. recreational boats and related parts include luxury cruisers, yachts, runabouts, trailers, motors and motor components, fiberglass resins, and deck and interior fit-out equipment and accessories

MARKET ACCESS

There are no market barriers to importing boats into Australia from the U.S. There are standards that apply to boating, covering both local manufacture and imports. The standards writing body in Australia is *Standards Australia*, an independent, not-for-profit organization whose primary role is to prepare Australian standards through an open process of consultation and consensus.

U.S. manufacturers considering exporting boats need to consult Australian standards applicable to general and design requirements. Standards Australia is located at:

1 The Crescent
Homebush, NSW 2135
Tel: 61 2 9746 4600
Fax: 61 2 9746 3333
Email: sales@standards.com.au
Website: www.standards.com.au

Standards are available thorough Standards Australia's publisher, SAI-Global. SAI-Global has exclusive license over the distribution and sale of Australia Standards. Its URL is:
<http://www.saiglobal.com/>

Applicable standards include:

AS 1799.1-1992 - Small Pleasure Boats Code - General requirements for powerboats
AS 4132.1-1993 - Boat and ship design and construction - Design loadings
AS 1799.3-1985 - Small pleasure boats code - Engineering
AS 1799.5-1990 - Small pleasure boats code - Aluminum construction
AS 1799.4-1985 - Small pleasure boats code - Reinforced plastics construction
AS 4132.3-1993 - Boat and ship design and construction - Fiber-reinforced plastics construction
AS 4132.2-1993 - Boat and ship design and construction - Aluminum construction
AS/NZS 3004:2002 - Electrical installations - Marinas and pleasure craft at low-voltage
AS 4393-1996 - Small craft - Hull identification - Coding system
AS 3542-1996 - Pleasure boats - Toilet waste collection, holding and transfer systems

Searching these standards on the SAI web site reveals preliminary information included in the standards codes, as a prelude to payment for full details, e.g.:

AS17899.1-1992: Small Pleasure Boats Code - General Requirements for Power Boats. This specifies requirements for determining maximum persons and power capacities and for stability, reserve buoyancy and general design features of powerboats up to 45 ft in overall length and used as pleasure boats.

AS1799.3-1985: Small Pleasure Boats Code - Engineering. The standard sets out requirements for propulsion systems, ventilation, bilge pumping, electrical systems, steering and other mechanical features of pleasure boats up to 45 ft in overall length.

Strong competition comes from international sources. In 2007, the top ten suppliers of recreational boats to Australia were:

- | | |
|-------------------|----------------|
| 1. United States | 6. New Zealand |
| 2. United Kingdom | 7. France |
| 3. Taiwan | 8. Germany |
| 4. Italy | 9. Singapore |
| 5. China | 10. Malaysia |

(Australian Bureau of Statistics)

Australia itself is a world leader in design, construction and quality of alloy and fiberglass boats, and exports up to two-thirds of its production in some sizes. Riviera is the largest local builder.

In recent times, the growth of the Internet as a sales medium is influencing this market sector. This is particularly significant in the area of accessories and spares. Some large local equipment suppliers have commented on the increasing competition from direct sales via the web.

MARKET ENTRY

Success in the Australian market requires establishing a local sales presence. Marine product distribution takes place through dealers, distributors or sales agents. There are a number of distributors that supply boat dealers nationwide, and specialist stores that sell all types of boating accessories and fishing gear. Boat dealers stock a wide range of marine accessories with historically high profit margins. Most marinas include a chandlery where boating supplies and accessories are available, and more often than not a brokerage that buys and sells boats. There are a number of magazines specializing in boat sales, such as *Trade-a-Boat*. For details, click on http://boatpoint.ninemsn.com.au/portal/tabID_804614/DesktopDefault.aspx

Most of the criteria American firms use to select agents or distributors in the U.S. are suitable in Australia, with expectations adjusted to the scale of the market. Performing due diligence is just as important as in the United States, and numerous resources are available to assist in that work, including the U.S. Commercial Service's *International Company Profile* (see USCS Services).

The standard forms of trade finance are all prevalent in Australia. Bank and institutional financing is available. In the current environment, credit has become more expensive, and sellers may seek proof of financing before commencing a transaction.

The method, timing, and arrangements for payment are a matter for negotiation between the U.S. exporter and Australian importer. Any agreement will depend on the relative bargaining strengths of the two parties, the creditworthiness of the buyers and the seller's financial resources. Payment terms of between 30-60 days are the norm for small-to-medium consignments and up to 90 days for large volume purchases. The usual method of payment is by letter of credit or sight draft.

SERVICES OFFERED BY THE U.S. COMMERCIAL SERVICE

The U.S. Commercial Service can assist American companies in the Australian market with the following services:

- ✓ Customized Market Research (CMR): is an entry-level step that helps determine prospects for a company's products or services, and as a tool to identify market opportunities and representation interest. Based on the finding of a CMR, a follow-on strategy could include either an International Partner Search or Gold Key Matching service
- ✓ International Partner Search (IPS): involves a search to identify qualified Australian agents, distributors, or joint venture partners who have expressed an interest in the company's products or services
- ✓ Gold Key Matching Service (GKS): offers a schedule of meetings with local companies for visiting U.S. executives
- ✓ International Company Profile (ICP): designed to assist U.S. companies evaluate potential business partners by providing a detailed background report on Australian companies.

For more information on any of these services please contact your nearest U.S. Department of Commerce Export Assistance Center or visit our website at www.BuyUSA.gov/Australia

USEFUL CONTACTS

New South Wales Maritime
<http://www.maritime.nsw.gov.au>

Marine Safety Victoria
www.marinesafety.vic.gov.au

Maritime Safety Queensland
www.msq.qld.gov.au

Transport South Australia:
www.transport.sa.gov.au

iMarine Western Australia
www.dpi.wa.gov.au/imarine

Infrastructure Planning and Environment,
Northern Territory
www.nt.gov.au/ipe/dtw

Marine & Safety Tasmania
www.mast.tas.gov.au

The Boating Industry Association in Australia is organized by State. Web sites are:

New South Wales	www.bia.org.au
Victoria	www.biavic.com.au
Queensland	http://www.marineqld.com.au/
South Australia	www.boatingsa.com.au
Western Australia	www.biawa.asn.au

Australian Marine Industries Federation (AMIF)
www.amif.asn.au

Marina Industries Association of Australia
<http://www.marinas.net.au>

Boatpoint Australia Electronic News
<http://boatpoint.ninemsn.com.au/>

MAJOR TRADE SHOWS

The 2008 Sanctuary Cove Boat Show is a major event on the exhibition calendar. In 2008, it celebrates its 20th anniversary. The 2008 show starts on May 22, and runs for four days. There will be 439 international and Australian exhibitors with 107 product launches at the show. The marina area will display 390 boats. Powerboats of every description will be on display, from large and luxurious right down to the humble tinny (small, aluminum). Hundreds of marine products will be on display in the four pavilion areas and the Marine Village area. The show is often a destination of boating groups from other countries, in the case of the U.S, notably from Florida. Reciprocal delegations visit Fort Lauderdale and Miami. The show's web site contains a great deal of information related to the show at: <http://www.sanctuarycoveboatshow.com.au/>

Boat Shows are great places to strike a bargain. Most exhibitors have boat show specials. Buyers in the market for a boat can often negotiate a discount or get some extras thrown if they are prepared to commit at the show. Boat shows in Australia are common events:

Club Marine Melbourne Boat Show

Melbourne Exhibition Centre

July 3 – 7, 2008

Website: www.biavic.com.au

Adelaide Boat Show

Adelaide Convention Center

July 17-20, 2008

Website: www.adelaideboatshow.com.au

Sydney International Boat Show

Darling Harbor

July 31- August 5, 2008

Website: www.sydneyboatshow.com.au

Perth International Boat Show

Perth Convention Exhibition Centre

August 13-17, 2008

Website: www.perthboatshow.com.au

Brisbane International Boat Show & Brisbane Fishing Expo

Brisbane Convention Centre

August 27-31, 2008

Website: www.brisbaneboatshow.com.au

Gold Coast Boat Show

July 11-13, 2008

Website: www.gcboatshow.com.au

Darwin Boat Show

Mararra Stadium

August 8-9, 2008

<http://www.boatshows.com.au/Darwin.html>

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